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Galtaco Inc.



**1979
ANNUAL
REPORT**

Galtaco

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ANNUAL AND GENERAL MEETING OF SHAREHOLDERS

The Annual and General Meeting of Shareholders will be held in the Quebec Room of The Royal York Hotel, Toronto, Ontario, Canada, on Thursday, March 20, 1980, at 11:15 a.m., Toronto Time.

Notice of this meeting, together with the Information Circular and Proxy Form is enclosed with this report.

Galtaco Inc.

and subsidiary companies

Corporate Offices:
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Cambridge, Ontario, Canada.

Mailing Address

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OFFICERS and DIRECTORS - 1979

OFFICERS

DAVID L. CHANDLER,
Chairman of the Board

FRANK W. SIMPSON,
Secretary-Treasurer

HUGH C. MACKAY
Vice-Chairman - Emeritus

J. DOUGLAS MAJOR,
Executive Vice-President, Foundries

DOUGLAS R. McKAY,
President

DIRECTORS

DAVID L. CHANDLER,
Executive,
Redlaw Inc.,
Toronto, Ontario

FRANK W. SIMPSON,
Executive,
Galtaco Inc.,
Cambridge, Ontario

DOUGLAS R. McKAY,
Executive,
Galtaco Inc.,
Cambridge, Ontario

JAMES W. HALLOCK,
Director, Market Planning
U.S. Sales Office,
Albion, Michigan

HAROLD J. MURPHY, Q.C.
Barrister and Solicitor,
Garvey, Ferriss,
Toronto, Ontario

RAINER H. BOSSELMANN,
Executive,
Andras, Hatch and Hetherington Ltd.,
Toronto, Ontario

J. DOUGLAS MAJOR,
Executive,
Galtaco Inc.,
Cambridge, Ontario

BANKERS

THE ROYAL BANK OF CANADA,
Cambridge, Ontario

AUDITORS

THORNE RIDDELL & CO.,
Cambridge, Ontario

SOLICITORS

GARVEY, FERRISS,
Toronto, Ontario

TRANSFER AGENTS AND REGISTRARS

GUARANTY TRUST COMPANY
OF CANADA
Toronto, Ontario

Galtaco Inc.

Report to Shareholders

On behalf of the Board of Directors, we are pleased to submit the Financial Report for the twelve months fiscal year ended September 30, 1979 and to comment briefly on some of the more significant events during the year.

FINANCIAL RESULTS

Consolidated sales for the fiscal year ended September 30, 1979 were \$73,654,000 as compared to \$48,366,000 for the nine months ended September 30, 1978. Consolidated net income for this period was \$442,000 (being \$.65 per share) as compared to consolidated net income of \$514,000 or \$.81 per share for the nine months fiscal year ended September 30, 1978.

Direct comparison between fiscal years 1978 and 1979 is difficult because of the date change in the Company's year end from December 31, to September 30, in 1978, that required that fiscal to be a nine month period.

The reduction in earnings in 1979 was primarily attributable to the depressed state of the automotive industry. A further factor in the reduced earnings was the merger during the year between Redlaw Inc., a partially-owned subsidiary and Redlaw (U.S.) Inc., a wholly-owned subsidiary. The issue of shares by Redlaw for the acquisition of the minority interest in Redlaw (U.S.) created a disposition of a portion of the company's equity in Redlaw and its subsidiaries, and for accounting purposes, this resulted in an extraordinary charge to income of \$485,000.



David L. Chandler Chairman of the Board

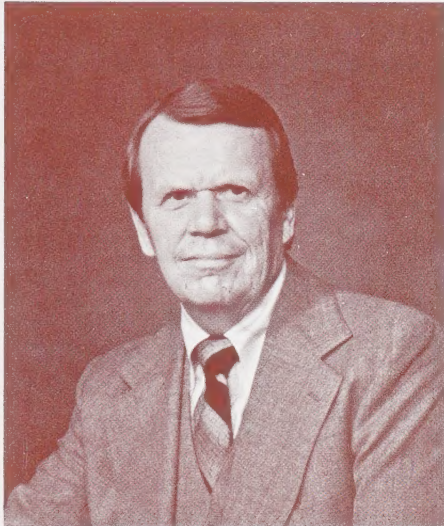
Nonetheless, management declared dividends of \$.10 per Class A share and Class B share in the first three quarters of the fiscal year. Shareholders were further given the right to elect a stock dividend in lieu of a cash dividend. In the fourth quarter, a stock dividend was declared on the basis of one share for every one hundred shares held.

Dividends were also declared and paid during fiscal 1979 on the outstanding preference shares in the following amounts:

First Preference \$1.50 per share
Second Preference . . \$5.06 per share

OPERATIONS

The company is directly and indirectly engaged in the manufacture and sale of automotive and transportation products at its Ontario plants located



Douglas R. McKay *President*

in Cambridge, Brantford and Orillia, which are divided into the following segments:

- (1) Foundry products, primarily ductile and malleable iron castings for the automotive, agricultural and related industries;
- (2) Industrial products, principally "Innovator I" and conventional seating for mass transit applications. In addition, this division produces axles, wheel rims and other undercarriage parts for recreational and industrial trailers.

UNITED STATES OPERATIONS

Through its majority ownership in Redlaw Industries Inc. and through Redlaw's wholly-owned U.S. subsidiary, Redlaw (U.S.) Inc., the company has indirect control over G.R.M. Industries Inc., formerly Grand Rapids Metalcraft Inc., and Founders of American Investment Corporation.

G.R.M. is involved in the forming, finishing and assembly of component parts for both the automotive industry and a diverse cross section of America's major manufacturers.

G.R.M. has continued to modernize its plant facilities and management is confident that this will increase the company's finishing capabilities while diminishing its production costs.

As previously reported, in April, 1978, G.R.M. acquired 50.2% of the outstanding common stock of Founders of American Investment Corporation. As at June 30, 1979, Founders reported net assets of \$6,147,000 consisting primarily of cash and other liquid assets. Management has continued its efforts in seeking potential acquisitions for Founders.

The past fiscal year has presented great challenges to the company's major customers in the automotive industry and hence to our company. Your Directors are confident that Management has both the capabilities and policies to face these challenges which should provide further opportunities for growth in the coming decade.

In conclusion, we extend our sincere appreciation to our employees at all levels for their continued dedication and to our Shareholders for their support.

The annual and general meeting of shareholders will be held at The Royal York Hotel, Toronto, on March 20, 1980. We look forward to meeting all

the shareholders who will be able to attend at that time.

On behalf of the Board of Directors

David L. Chandler,
Chairman of the Board

Douglas R. McKay,
President

Cambridge, Ontario
February 27, 1980

Galtaco Inc.

Five Year Financial Review

	1979	1978	1977	1976	1975
(9 Months)					
Statement of Income:					
Revenue	\$74,130,000	\$48,650,000	\$46,814,000	\$12,213,000	\$12,179,000
Cost of sales	63,639,000	41,641,000	38,867,000	9,585,000	9,430,000
Gross profit	\$10,491,000	\$ 7,009,000	\$ 7,947,000	\$ 2,628,000	\$ 2,749,000
Sales, financial and administrative expenses	7,182,000	5,170,000	5,393,000	1,688,000	1,492,000
	\$ 3,309,000	\$ 1,839,000	\$ 2,554,000	\$ 940,000	\$ 1,257,000
Other income					
Gain on sale of land	\$	\$	\$ 132,000		
Gain on sale of investments	240,000	156,000			
Unrealized foreign exchange gain	251,000	185,000	840,000		
Equipment relocation costs		(104,000)			
Equity in earnings of non-consolidated subsidiary	74,000	44,000		140,000	274,000
Income from other investments			106,000	72,000	19,000
Income before income taxes, minority interest and extraordinary items	\$ 3,874,000	\$ 2,120,000	\$ 3,632,000	\$ 1,152,000	\$ 1,550,000
Income taxes	1,471,000	667,000	1,167,000	431,000	558,000
	\$ 2,403,000	\$ 1,453,000	\$ 2,465,000	\$ 721,000	\$ 992,000
Minority interest in income of subsidiary companies	1,476,000	1,071,000	1,160,000		
Income from continuing operations	\$ 927,000	\$ 382,000	\$ 1,305,000	\$ 721,000	\$ 992,000
Income from discontinued operations		84,000	114,000		
Income before extraordinary items	\$ 927,000	\$ 466,000	\$ 1,419,000	\$ 721,000	\$ 992,000
Extraordinary items	(485,000)	48,000		154,000	
Net income	\$ 442,000	\$ 514,000	\$ 1,419,000	\$ 875,000	\$ 992,000

Financial and Other Information:

Working capital	\$ 8,054,000	\$10,256,000	\$12,191,000	\$10,458,000	\$ 1,632,000
Working capital ratio	1.45:1	1.75:1	1.85:1	2.58:1	1.79:1
Long-term debt	11,575,000	15,200,000	11,081,000	9,763,000	2,261,000
Minority interest in subsidiaries	8,354,000	8,414,000	8,325,000	5,065,000	
Information relating to Class A and Class B shares.					
Number of shares outstanding	695,801	675,755	654,454	647,600	647,600
Shareholders' equity	\$ 7,357,000	\$ 7,007,000	\$ 6,540,000	\$ 5,352,000	\$ 5,001,000
Equity per share	\$11.13	\$10.92	\$10.50	\$8.26	\$7.72
Cash flow per share	\$5.92	\$3.75	\$6.97	\$1.57	\$2.32
Earnings per share*	.65¢	.81¢	\$2.30	\$1.41	\$1.52
Dividends per share	.40¢	.30¢	.40¢	.40¢	.30¢
Return on equity	6.0%	7.3%	21.7%	16.3%	19.7%

*Including extraordinary items.

Galtaco Inc.

Consolidated Statement Of Income

	1979	1978
	Year ended September 30	Nine months ended September 30
Revenue		
Sales	\$73,654,000	\$48,366,000
Interest income	476,000	284,000
	74,130,000	48,650,000
Costs and expenses		
Cost of goods sold	63,639,000	41,641,000
Selling, administrative and general	4,670,000	3,726,000
Interest		
Long term debt	1,919,000	947,000
Other	593,000	497,000
	70,821,000	46,811,000
	3,309,000	1,839,000
Other income (expense)		
Gain on sale of fixed assets	240,000	156,000
Unrealized foreign exchange gain	251,000	185,000
Equipment relocation costs		(104,000)
Equity in earnings of non-consolidated subsidiary	74,000	44,000
	565,000	281,000
Income before income taxes, minority interest and extraordinary items	3,874,000	2,120,000
Income taxes	1,471,000	667,000
	2,403,000	1,453,000
Minority interest in income of subsidiary companies	1,476,000	1,071,000
Income from continuing operations	927,000	382,000
Gain on disposal of assets of discontinued businesses after income taxes and minority interest		84,000
Income before extraordinary items	927,000	466,000
Loss on disposition of interest in subsidiaries (note 3)	(485,000)	
Income tax reduction realized on carry-forward of prior years' income tax losses of subsidiary company		48,000
NET INCOME	\$ 442,000	\$ 514,000

Earnings per share (note 10)

Galtaco Inc.

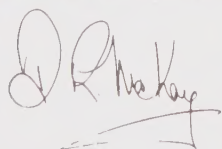
(Incorporated under the laws of Ontario)

Consolidated Balance Sheet

As at September 30, 1979

ASSETS	1979	1978
CURRENT ASSETS		
Cash and short term deposits	\$ 4,509,000	\$ 5,281,000
Accounts receivable	7,785,000	8,603,000
Notes receivable	395,000	423,000
Inventories (note 2)	12,520,000	9,039,000
Prepaid expenses	548,000	570,000
	25,757,000	23,916,000
INVESTMENTS		
Investment in non-consolidated subsidiaries (note 4)	4,029,000	4,794,000
Contract receivable - sale of property	293,000	
Life Insurance, cash surrender value	48,000	47,000
	4,370,000	4,841,000
FIXED ASSETS		
Land	364,000	441,000
Buildings and improvements	7,185,000	7,296,000
Machinery and equipment	18,868,000	18,811,000
	26,417,000	26,548,000
Less accumulated depreciation	12,224,000	11,031,000
	14,193,000	15,517,000
DEFERRED CHARGES (note 5)	1,821,000	2,074,000

Approved by the Board



D. R. McKay, Director



F. W. Simpson, Director

\$46,141,000

\$46,348,000

LIABILITIES	1979	1978
CURRENT LIABILITIES		
Bank indebtedness (note 6)	\$ 5,439,000	\$ 4,619,000
Accounts payable and accrued liabilities	8,147,000	7,639,000
Income and other taxes payable	432,000	166,000
Principal due within one year on long term debt	3,685,000	1,236,000
	17,703,000	13,660,000
LONG TERM DEBT (note 7)	11,575,000	15,200,000
DEFERRED INCOME TAXES	1,092,000	2,007,000
MINORITY INTEREST IN SUBSIDIARIES	8,354,000	8,414,000
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 8)		
Authorized		
2,818 6% Cumulative first preference shares, par value \$100, redeemable at up to \$105 per share		
779 6¼ % Cumulative participating second preference shares, par value \$100, redeemable at up to \$105 per share		
2,000,000 Common shares without par value.		
Issued		
318 First preference shares	32,000	32,000
279 Second preference shares	28,000	28,000
695,801 Common shares (675,755 shares in 1978)	1,024,000	838,000
	1,084,000	898,000
CONTRIBUTED SURPLUS	101,000	101,000
RETAINED EARNINGS	6,449,000	6,285,000
	7,634,000	7,284,000
COST OF 35,048 SHARES (33,867 IN 1978) IN COMPANY HELD BY SUBSIDIARY	217,000	217,000
	7,417,000	7,067,000
	\$46,141,000	\$46,348,000

Commitments (note 9)

Galtaco Inc.

Consolidated Statement of Changes in Financial Position

	1979	1978
	Year ended September 30	Nine months ended September 30
WORKING CAPITAL DERIVED FROM		
Operations		
Income before extraordinary items	\$ 927,000	\$ 514,000
Items not involving working capital		
Depreciation and amortization	1,600,000	1,324,000
Deferred income taxes (reduction)	149,000	(261,000)
Gain on sale of fixed assets	(240,000)	(240,000)
Minority interest in income of subsidiary companies	1,476,000	1,071,000
Equity in earnings of non-consolidated subsidiary	(74,000)	(44,000)
Other	(2,000)	
	3,836,000	2,364,000
Increase in long term debt		5,355,000
Proceeds from sale of fixed assets net of contract receivable of \$293,000 in 1979	174,000	827,000
Issue of capital stock		
In lieu of cash dividends	177,000	162,000
For shares in Spraymould Limited	9,000	
Issue of shares of subsidiaries to minority shareholders		
Pursuant to rights offering	121,000	
For shares of Redlaw (U.S.), net of merger costs	4,278,000	
	8,595,000	8,708,000
WORKING CAPITAL APPLIED TO		
Purchase of fixed assets	689,000	3,871,000
Cost of subsidiary's acquisition of minority interest in Redlaw (U.S.)	4,702,000	
Redemption of shares of subsidiary company	867,000	875,000
Purchase of minority interest in subsidiary	54,000	
Investment in non-consolidated subsidiary	129,000	3,782,000
Investment in and advances to Spraymould Limited	126,000	61,000
Working capital deficiency assumed on amalgamation with Spraymould Limited	130,000	
Decrease in long term debt	3,594,000	1,236,000
Deferred charges	5,000	494,000
Dividends	278,000	204,000
Dividends paid to minority interest	221,000	62,000
Other	2,000	58,000
	10,797,000	10,643,000
DECREASE IN WORKING CAPITAL	2,202,000	1,935,000
WORKING CAPITAL AT BEGINNING OF PERIOD	10,256,000	12,191,000
WORKING CAPITAL AT END OF PERIOD	\$ 8,054,000	\$10,256,000

Galtaco Inc.

Consolidated Statement Of Retained Earnings

	1979	1978
	Year ended September 30	Nine months ended September 30
BALANCE AT BEGINNING OF PERIOD	\$6,285,000	\$5,975,000
Net income	442,000	514,000
	6,727,000	6,489,000
Dividends on		
Preference shares	5,000	3,000
Common shares	273,000	201,000
	278,000	204,000
BALANCE AT END OF PERIOD	\$6,449,000	\$6,285,000

Galtaco Inc.

Notes To Consolidated Financial Statements

September 30, 1979

1. ACCOUNTING POLICIES

(a) Basis of consolidation

These consolidated financial statements include the accounts of the 80% owned subsidiary company Molectrics Canada Inc. ("Molectrics"), the 57.4% owned (91.3% owned in 1978) subsidiary company Redlaw Industries Inc. ("Redlaw") formerly Bartaco Industries Limited, its wholly owned (59.8% owned in 1978) subsidiary company, Redlaw (U.S.) Inc. whose fiscal year ends on July 31, and its 64.6% owned (50.2% owned in 1978) subsidiary company, Grand Rapids Metalcraft Inc. ("Metalcraft") whose fiscal year ends on July 31, and Metalcraft's investment in its 50.2% owned (50.1% owned in 1978) subsidiary company, Founders of American Investment Corporation ("Founders") whose fiscal year ends on June 30.

The consolidated statement of income includes the operating results of the consolidated subsidiaries as follows:

Redlaw - for the years ended September 30, 1979 and 1978.

Redlaw (U.S.) Inc. - for the year ended July 31, 1979 and for the period from January 1, 1978 to July 31, 1978.

Metalcraft - for the year ended July 31, 1979 and the period from January 1, 1978 to July 31, 1978.

Founders is a closed-end management investment company and, accordingly, has been accounted for on the equity basis (note 4). The consolidated statement of income includes Metalcraft's equity in Founders' income from the date of acquisition on April 7, 1978.

(b) Investment in non-consolidated subsidiary

The excess of cost over assigned values of Founders at date of acquisition is included in the investment in the non-consolidated subsidiary and is being amortized over 35 years.

(c) Foreign currency translation

The accounts of the subsidiary companies located in the United States and the parent company's long term bank loan payable in U.S. funds have been translated to Canadian currency as follows:

Monetary assets and liabilities - at exchange rates in effect on the balance sheet date of the foreign subsidiaries;

Inventories - at average rates of exchange during the period of purchase or manufacture;

Fixed assets - at exchange rates prevailing at dates of acquisition;

Long term debt - at exchange rates in effect on the balance sheet date of the debtor;

Accumulated depreciation and related provision against income - at exchange rates prevailing at dates of acquisition of the related assets;

Income and other expenses - at average exchange rates for the year.

Unrealized exchange gains and losses are charged to income as they accrue with the exception of unrealized gains and losses relating to long term debt which are deferred and amortized over the remaining life of the debt.

(d) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis for Canadian inventories and for direct labour and overhead in a United States subsidiary. Cost is determined on a last-in, first-out basis for materials and purchased parts in that United States subsidiary.

1. ACCOUNTING POLICIES (cont'd)

(e) Fixed assets

Fixed assets are stated at cost and are depreciated principally on the straight-line basis using rates which are intended to write off the cost of the assets over their estimated useful lives as follows:

Buildings and improvements	10-45 years
Machinery and equipment	4-20 years

(f) Deferred charges

New product development costs are amortized based on units sold.

New product development costs relating to products currently in the development stage are stated at cost less sales revenues therefrom.

Deferred translation adjustments related to U.S. dollar debt are amortized over the remaining life of the debt.

Long term debt issue costs are amortized over the original lives of the related debt.

(g) Pension plans

Current service costs are charged to income as they accrue. Unfunded past service liabilities of Redlaw's Metalcraft subsidiary are being amortized over 30 and 40 years.

2. INVENTORIES

	1979	1978
Raw materials and supplies	\$ 6,068,000	\$4,862,000
Work in process	5,013,000	3,157,000
Finished goods	1,439,000	1,020,000
	\$12,520,000	\$9,039,000

3. SHARE TRANSACTIONS - SUBSIDIARIES

During the year ended September 30, 1979 the company's subsidiary, Redlaw Inc., increased its ownership in Metalcraft from 50.2% to 64.6% pursuant to a rights offering at a cash cost of approximately \$1,900,000. The excess of the book value acquired over its cost (\$576,000) has been credited to machinery and equipment and will be amortized to income over the remaining life of the related assets (10 years).

On July 12, 1979, the shareholders of Redlaw Inc. approved an agreement of merger under which Redlaw Inc. was merged into Redlaw (U.S.) Inc., a wholly owned subsidiary of Redlaw Industries Inc., formed for the purposes of the merger. Upon consummation of the merger, each minority common share of Redlaw Inc. was converted into 2 1/3 common shares of Redlaw Industries Inc.. This exchange was accounted for on a purchase basis and the value ascribed to the Redlaw Industries Inc. common shares issued in the exchange was \$4,702,000 which approximates the book value of the assets acquired.

The issue of shares by Redlaw for the acquisition of the minority interest in Redlaw (U.S.) resulted in a disposition of a portion of the company's equity in Redlaw and its subsidiaries.

During the year ended September 30, 1978 Redlaw Inc. purchased 200,000 of its common shares for a cash consideration of \$881,000 (U.S. \$800,000). During 1978 Metalcraft acquired approximately 51% of Founders of American Investment Corporation (a U.S. closed-end investment company) for a total cash consideration of approximately \$3,740,000 (U.S. \$3,300,000) including fees and expenses. The excess of cost over equity in assigned values of Founders was \$274,000.

Galtaco Inc.

Notes To Consolidated Financial Statements

(Continued)
September 30, 1979

4. INVESTMENT IN NON-CONSOLIDATED SUBSIDIARIES

	1979	1978
Spraymould Limited		
Shares		\$ 10,000
8% Advances maturing July 31, 1982 less provision for decline in value of \$125,000		924,000
Other advances		34,000
Founders of American Investment Corporation	\$4,029,000	3,826,000
	\$4,029,000	\$4,794,000

Spraymould Limited

During the year, the company acquired that portion of Spraymould Limited not previously owned by it for cash of \$100,000 and shares of \$9,000, and the companies were amalgamated. The carrying value of the investment was ascribed to net operating assets acquired of \$30,000 and \$1,064,000 to deferred taxes in recognition of the future tax benefit expected to be derived on the application of certain scientific research expenditures against income of the continuing company.

Founders of American Investment Corporation

The financial position at June 30, 1979 and 1978 and results of operations for the years then ended of Founders is summarized as follows:

	1979	1978
Cash	\$6,090,000	\$5,689,000
Investments in real estate, at cost less accumulated depreciation of \$121,000 in 1979 and \$147,000 in 1978	668,000	734,000
Investments in mining claims, at cost less a valuation allowance of \$60,000 in 1979	269,000	329,000
Other assets	157,000	476,000
Liabilities	(18,000)	(381,000)
Net assets	\$7,166,000	\$6,847,000
Investment income including interest of \$591,000 in 1979 and \$514,000 in 1978	\$ 685,000	\$ 694,000
Gain on sale of real estate, net of income taxes of \$26,000	59,000	
	744,000	694,000
Operating expenses, including income taxes of \$118,000 in 1979 and \$107,000 in 1978	548,000	359,000
Net income	196,000	335,000
Income prior to date of acquisition		243,000
Post acquisition income	\$ 196,000	\$ 92,000
Metalcraft's equity in net income	\$ 98,000	\$ 46,000
Less amortization of excess of cost over equity and basis difference on real estate sold	24,000	2,000
	\$ 74,000	\$ 44,000

Consolidated retained earnings at September 30, 1979 and 1978 include \$38,000 and \$13,000, respectively, of undistributed income of Founders.

5. DEFERRED CHARGES

	1979	1978
New product development costs		
Products in commercial production	\$1,180,000	\$1,237,000
Products in the development stage	65,000	65,000
Unrealized translation losses on long term debt	441,000	626,000
Long term debt issue costs	20,000	29,000
Other	115,000	117,000
	\$1,821,000	\$2,074,000

6. BANK INDEBTEDNESS

	1979	1978
Canadian operations	\$ 4,268,000	\$ 4,165,000
U.S. operations	1,171,000	454,000
	\$ 5,439,000	\$ 4,619,000

Canadian bank indebtedness is secured by a general assignment of book debts, inventories and shares of a subsidiary company. U.S. bank indebtedness is unsecured.

7. LONG TERM DEBT

	1979	1978
The company		
5 1/2% General mortgage sinking fund bonds due July 1, 1981	\$ 97,000	\$ 115,000
Less sinking fund cash	52,000	37,000
	45,000	78,000
7 1/4% debenture due July 15, 1982	547,000	741,000
10% First mortgage bonds due June 15, 1982	165,000	229,000
Bank loans, payable semi-annually to 1980	50,000	150,000
5% Note, payable annually to 1987	2,230,000	2,509,000
Debenture due November 15, 1982, bearing interest at a variable rate, currently 14.73%	1,770,000	1,890,000
Subsidiary companies		
Long term bank loan* (U.S. \$4,800,000)	5,569,000	5,685,000
7.25% Debenture, payable monthly to maturity in 1981	179,000	240,000
Unsecured bank loan, due October 1979, bearing interest at 1/2% over U.S. prime rate (effective rate 12% at July 31, 1979) (U.S. \$1,600,000)	1,873,000	1,816,000
9.5% Bank loan secured by liens on equipment payable in monthly instalments of U.S. \$26,000 to maturity in 1986 (U.S. \$2,240,000)	2,622,000	2,837,000
Other	210,000	261,000
	15,260,000	16,436,000
Less principal included in current liabilities	3,685,000	1,236,000
	\$11,575,000	\$15,200,000

Galtaco Inc.

Notes To Consolidated Financial Statements

(Continued)
September 30, 1979

7. LONG TERM DEBT (cont'd)

*The long term bank loan is payable in U.S. funds. The portion due December 31, 1979 (U.S. \$500,000) bears interest at 13 7/8% and the remaining U.S. \$4,300,000 bears interest at 13 3/8% until September 19, 1980 at which time the rate will be subject to revision. This loan is secured by an assignment of shares in a subsidiary company. Principal payments of U.S. \$500,000 are due on December 31, 1979, 1980 and 1981, and the balance of U.S. \$3,300,000 is due on December 31, 1982. Under certain circumstances earlier repayment may be required. Under the terms of the loan the company requires prior approval of the lender for certain of the following activities:

- | | |
|---------------------------------|---------------------------|
| (a) Investments | (d) Payment of dividends |
| (b) Borrowing of money | (e) Loans to shareholders |
| (c) Redemption of capital stock | |

The bonds and debentures are secured by the company's fixed assets and by a floating charge on all its assets and undertakings.

Principal due on long term debt within each of the next five years is approximately as follows:

1980	\$3,685,000
1981	1,704,000
1982	1,635,000
1983	5,923,000
1984	681,000

8. CAPITAL STOCK

During the year the company obtained articles of amendment which reclassified the 999,500 existing Class A shares and the 999,500 existing Class B shares as common shares without par value. During the year ended September 30, 1979, 20,046 common shares were issued for a consideration of \$186,000.

9. COMMITMENTS

The most recent actuarial valuation indicates that the actuarially-computed value of vested benefits exceeded pension plan assets and balance sheet accruals in Redlaw's Metalcraft subsidiary by approximately U.S. \$2,777,000 as at August 1, 1978.

Unfunded past service liabilities in the parent company approximate \$96,000 at September 30, 1979. This liability is being funded by annual instalments through 1988.

10. EARNINGS PER SHARE

	1979	1978
Income from continuing operations	\$ 1.36	\$.59
Discontinued operations		.14
Income before extraordinary items	1.36	.73
Extraordinary items	(.71)	.08
Net income	\$.65	\$.81

11. OTHER STATUTORY INFORMATION

	1979	1978
Direct remuneration of directors and senior officers (as defined by The Business Corporations Act of Ontario)	\$ 382,000	\$ 219,000
Depreciation	1,373,000	1,075,000
Amortization	227,000	249,000

Galtaco Inc.

Auditors' Report

Thorne
Riddell
& Co.

To the Shareholders of Galtaco Inc.

We have examined the consolidated balance sheet of Galtaco Inc. as at September 30, 1979 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. For the company and its subsidiaries of which we are the auditors our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For other subsidiaries consolidated and accounted for by the equity method, we have relied on the reports of the auditors who have examined their financial statements.

As described in note 4 the company has ascribed to deferred income

taxes an amount related to scientific research expenditures incurred by Spraymould Limited, the realization of which is dependent upon confirmation by the taxing authorities.

In our opinion, subject to the effects, if any, on the consolidated financial statements of the ultimate resolution of the matter referred to in the preceding paragraph, these consolidated financial statements present fairly the financial position of the company as at September 30, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Thorne Riddell & Co.
Chartered Accountants

Cambridge, Canada
November 21, 1979

Galtaco Inc.

GALTACO INC.

and its Subsidiary Companies

AR25**Consolidated Statement of Changes in
Financial Position**

(Unaudited)

	Six Months Ended	
	March 31 1979	June 30 1978 Restated
Working capital derived from		
Operations	\$ 3,451,000	\$ 2,327,000
Proceeds from long term borrowings	—	1,600,000
Proceeds from sale of fixed assets	—	418,000
Issue of capital stock	57,000	105,000
Decrease in deferred charges:	58,000	—
	<u>3,566,000</u>	<u>4,450,000</u>
Working capital applied to		
Additions to fixed assets	325,000	2,460,000
Investment in non-consolidated subsidiary	172,000	3,338,000
Reduction of long term debt	3,069,000	703,000
Redemption of shares in subsidiary company	—	800,000
Dividends	139,000	135,000
Dividends paid to minority shareholders of subsidiary companies	77,000	62,000
Other	—	7,000
	<u>3,782,000</u>	<u>7,505,000</u>
Decrease in working capital	216,000	3,055,000
Working capital at beginning of period	<u>10,256,000</u>	<u>12,190,000</u>
Working capital at end of period	<u>\$10,040,000</u>	<u>\$ 9,135,000</u>

*Carcoys**ygalt**File*
Galtaco**1979 INTERIM REPORT**
for six months ended March 31

TO OUR SHAREHOLDERS:

On behalf of the Board of Directors, we are pleased to report the results for the six month period ended March 31, 1979.

Consolidated sales for the period totalled \$41,294,000 which resulted in net after tax income of \$1,256,000 or \$1.94 per common share.

A direct comparison of the results in the above period to the restated operating results for the six month period January 1, 1978 to June 30, 1978 is difficult because of the change of date of the Company's year end.

Notwithstanding the above, the encouraging results for the 1979 fiscal six month period are primarily due to an increase in market penetration in both Galtaco foundries. This increase is largely attributable to new products that are now successfully tooled, tested and released for production. In addition, the increased capacity for Ductile Iron castings at our Brantford Plant was a contributing factor.

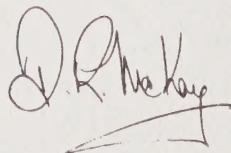
The Company has continued paying quarterly dividends of 10 cents per common share and anticipates periodically providing the right to Shareholders to elect a stock dividend in lieu of a cash dividend.

On behalf of the Board of Directors,

D.L. Chandler
Chairman



D.R. McKay
President



Cambridge, Ontario
June 15, 1979

GALTACO INC.

and its Subsidiary Companies

Consolidated Financial Data (Unaudited)

	Six Months Ended	
	March 31 1979	June 30 1978 Restated
Revenue		
Sales	\$41,059,000	\$33,431,000
Interest income	235,000	190,000
	<u>41,294,000</u>	<u>33,621,000</u>
Cost and expenses		
Cost of goods sold	35,072,000	29,113,000
Selling, administrative and general	2,272,000	1,909,000
Interest	1,170,000	746,000
	<u>38,514,000</u>	<u>31,768,000</u>
	2,780,000	1,853,000
Other income (expense)		
Gain on sale of fixed assets	—	282,000
Unrealized foreign exchange gain	808,000	80,000
Equipment relocation costs	—	(126,000)
Equity in earnings of non-consolidated subsidiary	(12,000)	20,000
Income from other investments	—	9,000
	<u>796,000</u>	<u>265,000</u>
Income before income taxes, minority interest and extraordinary item	3,576,000	2,109,000
Income taxes	1,227,000	765,000
	<u>2,349,000</u>	<u>1,344,000</u>
Minority interest in income of subsidiary companies	1,124,000	473,000
Income before extraordinary items	1,225,000	871,000
Income tax reduction realized on carry-forward of prior years' income tax losses of subsidiary company	31,000	—
Net Income	<u>\$ 1,256,000</u>	<u>\$ 871,000</u>
Earnings per common share		
Income before extraordinary items	\$1.89	\$1.37
Net Income	\$1.94	\$1.37